

Deficit reduction and EU rules

In a recent debate in the Commons the UK government presented its report to the EU over the UK's progress in meeting the debt and deficit rules of the EU Treaties.

Every year the UK has to report to Brussels on how far it has got with getting its running budget deficit down below 3%, and its stock of national debt down to below 60% of GDP. These rigid requirements have been an integral part of EU policy ever since the ratification of the Maastricht Treaty. Most EU states have conformed with the budget deficit rules, but few have got anywhere near reaching the stock of debt requirements.

Euro area members are subject to possible financial penalties for failing to comply. The EU authorities seem to take a much stricter approach to supervising the annual budget deficit rule than the stock of debt rule. They seem to recognise that making states repay large quantities of debt would be very deflationary, whereas curbing annual deficits they judge to be less so. The EU does not have the same power to fine non Euro members, but it still makes the UK go through the business of submitting its plan for deficit reduction, and can respond with a statement on whether it approves or disapproves of the approach being taken.

The issue arises as to how much impact this requirement had on the previous Labour and Coalition governments? They said they took the exercise seriously, and they have always faithfully reported their position against the Maastricht obligations. The Coalition always pursued a policy of trying to get the annual deficit down, as did Labour after the crash, and have always looked forward to a time when they will also be reducing the stock of debt as a proportion of GDP.

During the debate I found it fascinating that the SNP and Labour, parties who dislike deficit reduction and the spending cuts that often accompany it, could not bring themselves to condemn the Maastricht requirements and the policies they have clearly led to on the continent. Apparently plans to cut the growth in spending or to raise taxes on anyone other than the rich are not desirable if home grown, but are just fine if in pursuit of compliance with the Maastricht Treaty, You would have thought parties of the left especially would welcome freedom from these debt and deficit controls when we leave the EU.

Free of them I do not suggest we let rip with larger deficits and faster build up of debt. I just want us to make rational decisions of how much to borrow and for what purpose, given the state of the economy and the ability to invest sensibly. It does not seem likely that most EU countries will get to below 60% any time soon, yet the requirement still sits there unamended.